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CLASS I - FOMC

TO: Federal Open Market Committee

DATE: December 16, 1985

FROM: Normand Bernard *NB*

Attached are two pages from Mr. Lindsey's memo circulated earlier for today's meeting. The corrections, which mainly involve updated monetary data, affect table 1 on page 2 and table 2 (which follows page 6.)

Attachments

Review of Recent Monetary Developments

Over the past year, expansion of the narrow monetary aggregates accelerated markedly from the earlier five-quarter period of moderate growth, and M2 growth speeded up a little, despite a slowdown in growth of nominal GNP, as shown in the table below. These developments occurred against a backdrop of declines in market interest rates, following the previous period of firming. The rest of this section places the experience of 1985 in a broader perspective. For each of these monetary aggregates, the behavior in 1985 of its velocity, demand, and association with later GNP movements are compared with the behavior in the earlier years of transaction deposit deregulation and with average postwar experience.

Table 1

Selected Monetary Aggregates,
Nominal GNP and Interest Rates
(percent change, annual rate)

	<u>1983Q3 to 1984Q4</u>	<u>1984Q4 to 1985Q4^e</u>	
M1-A ¹	3.5	8.1	
M1	5.5	11.7	
M2	7.9	8.7	
Nominal GNP	9.8	5.8	
Federal funds rate ²	23.5	-30.6	
<u>Memo:</u>	<u>1983Q2²</u>	<u>1984Q3²</u>	<u>1985Q3²</u>
Federal funds rate (quarterly average, percent)	8.80	11.39	7.90

e—partly estimated

1. M1-A is composed basically of currency and demand deposits.

2. To account for delayed impacts, the periods for measuring the federal funds rate are lagged one quarter behind the periods used for money and GNP growth.

Table 2
Shares of Components in Recent Growth of M1 and M2
(Percent)

	Share of Level <u>1985Q4^e</u>	Share of Growth		Memo: Annual Growth Rate	
		<u>1983Q3</u>	<u>1984Q4</u>	<u>1983Q3</u>	<u>1984Q4</u>
		to 1984Q4	to 1985Q4 ^e	to 1984Q4	to 1985Q4 ^e
M1	100.0	100.0	100.0	5.5	11.7
M1-A	71.6	48.8	51.1	3.5	8.1
Currency and Travelers Checks	28.4	41.9	19.8	8.0	7.9
Demand Deposits	43.2	7.0	31.2	.8	8.2
Other Checkable Deposits	28.4	51.2	48.9	11.4	21.9
Regular NOWs	18.3	20.4	23.7	6.4	16.8
Super NOWs	10.1	30.8	25.2	23.6	32.3
M2	100.0	100.0	100.0	7.9	8.7
M1	24.2	16.7	31.7	5.5	11.7
Nontransactions M2	75.8	83.3	68.3	8.7	7.8
Savings Deposits	12.0	-12.1	7.3	-6.6	5.1
MMDAs	19.9	14.5	50.8	6.6	25.6
Small Time Deposits	34.2	63.7	-3.1	14.4	-.7
Other Components ¹	9.7	17.3	13.3	15.8	12.3

^e—partly estimated.

¹. Money market mutual fund shares (other than institution-only), overnight RPs, and overnight Eurodollars.